



**OFFICE OF INSPECTOR GENERAL**  
*City of Chicago*



***REPORT OF THE INSPECTOR GENERAL'S OFFICE:***

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***DESCRIPTION OF CITY'S RESERVED POWERS UNDER THE  
PARKING METER CONCESSION***

**OCTOBER 2012**

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To the Mayor, Members of the City Council, the City Clerk, the City Treasurer, and the residents of the City of Chicago:

The City of Chicago Office of the Inspector General (IGO) has conducted a review of the powers retained by the City of Chicago under its 2008 concession agreement with Chicago Parking Meters, LLC ("CPM"). This agreement allows CPM to operate and collect and retain revenue from the City's metered parking system and its nearly 36,000 concession metered parking spaces for 75 years in exchange for CPM's 2009 payment of approximately \$1.15 billion.

The resulting report describes the powers retained by the City and the limitations and conditions the agreement places on these powers. Broadly, some of the powers retained by the City include the ability to designate the number and location of metered parking spaces and add and remove metered parking spaces. This power includes the ability to create parking spaces for which the City retains the revenue. Additional powers include the ability to establish and revise the schedule of metered parking fees and establish and revise the periods of operation and periods of stay of metered parking spaces.

The purpose of this review is to provide members of the City Council and City residents with plain-language information on the rights and powers retained by the City under this agreement so that they may be better informed of what aspects of parking meter policy the City controls.

I would like to thank the staff members of the Office of the Chief Financial Officer, the Department of Finance, and the Department of Law that took time to offer comment during this review.

As always, I welcome your ideas, comments, suggestions, questions, and criticisms.

Respectfully,

Joseph M. Ferguson  
Inspector General  
City of Chicago

The purpose of this report is to summarize the rights and powers retained by the City of Chicago under its 2008 concession agreement with Chicago Parking Meters, LLC (the "Agreement"). The Agreement allows Chicago Parking Meters, LLC ("CPM") to operate and collect and retain revenue from the City's metered parking system and its nearly 36,000 concession metered parking spaces<sup>1</sup> for 75 years in exchange for CPM's 2009 payment of approximately \$1.15 billion.

## **I. THE CITY'S RESERVED POWERS**

Under the Agreement, the City retains certain "Reserved Powers," including the ability to:

1. Designate the number and location of metered parking spaces and add and remove metered parking spaces;<sup>2</sup>
2. Establish and revise the schedule of metered parking fees for the use of metered parking spaces;
3. Establish and revise the periods of operation and periods of stay<sup>3</sup> of metered parking spaces;
4. Establish a schedule of fines for parking violations;
5. Administer a system for the adjudication and enforcement of parking violations and the collection of parking violation fines; and
6. Establish and administer pricing plans (*e.g.*, congestion pricing).<sup>4</sup>

## **II. LIMITATIONS AND CONDITIONS ON THE CITY'S EXERCISE OF ITS RESERVED POWERS**

### **A. Designation, Addition, and Removal of Metered Parking Spaces**

Although the City possesses the ability to designate, add, and remove metered parking spaces, it cannot allow the number of concession metered parking spaces to exceed 45,000 without CPM's prior written consent.<sup>5</sup> Conversely, if the average daily number of concession metered parking spaces falls below 30,000 for a reporting year, the City must pay CPM compensation equal to the reduction in the fair market value of CPM's interest in the Agreement, as determined by a third-party appraiser.<sup>6</sup>

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<sup>1</sup> Concession metered parking spaces are parking spaces from which CPM retains the revenue. *See* City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 1.1.

<sup>2</sup> Metered parking spaces include concession metered parking spaces and reserve metered parking spaces (spaces from which the City retains the revenue), as well as "other metered parking spaces" (defined in the Agreement as metered parking spaces that are not concession metered parking spaces or reserve metered parking spaces). *See* City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 1.1.

<sup>3</sup> A period of stay refers to the period of time that a motor vehicle can remain continuously parked in a metered parking space. City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 1.1.

<sup>4</sup> City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 1.1.

<sup>5</sup> There is no limitation on the City's ability to designate, add, and remove reserve metered parking spaces. City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 7.2(b).

<sup>6</sup> The calculation of this compensation must take into account "the amounts paid, or reasonably expected to be paid, over the [Agreement's] remaining term by the City" resulting from the City's exercise of its reserved powers, if the cost of those actions is to be "borne principally by [CPM] or other operators of on-street metered parking systems."

With respect to the cost of installing metering devices for newly designated concession metered parking spaces, CPM pays for the first 4,000 such installations in a given year.<sup>7</sup> However, the City must reimburse CPM for the costs of any additional installations above those first 4,000 annual installations.<sup>8</sup> The City must also pay the cost of removing any and all metering devices from any concession metered parking spaces that the City has no longer designated as metered parking spaces.<sup>9</sup>

With respect to reserve metered parking spaces—spaces from which the City retains the revenue—the City must pay the cost of installing and removing metering devices. The Agreement provides that CPM will operate and manage reserve metered parking spaces in exchange for a management fee equal to 15% of the gross revenues from such spaces.<sup>10</sup> In addition, the City must pay a monthly rental fee to CPM for the use of a metering device for a reserve metered parking space.<sup>11</sup> The fee is equal to two percent of the cost of the metering device.<sup>12</sup> Reserve metered parking spaces do not count against the 45,000 space limit on the number of concession metered parking spaces discussed above.

The City further retains the right to (1) operate “Other Metered Parking Spaces” (parking spaces that are neither concession metered parking spaces nor reserve metered parking spaces); and (2) enter into additional agreements regarding metered parking spaces, so long as the parking spaces have not been designated concession metered parking spaces at any time in the 20 years prior to the date of any additional agreement.<sup>13</sup> However, CPM has the right of first refusal as to any such agreement, meaning the City must enter into “good faith negotiations” with CPM concerning the terms of an arrangement for the metered parking spaces prior to offering the arrangement to any other party.<sup>14</sup>

## **B. Establishment and Revision of Metered Parking Fees**

The City’s power to establish and revise metered parking fees is also subject to one condition. The Agreement prohibits the City from using its power to establish metered parking fees to “favor the use by the general public” of any reserve metered parking space or any “Other

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City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Sections 7.10, 14.3(b) and 14.3(c).

<sup>7</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.2(d).

<sup>8</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.2(d).

<sup>9</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.2(d).

<sup>10</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.1.

<sup>11</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.2(d).

<sup>12</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.2(d).

<sup>13</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 2.1.

<sup>14</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 2.1.

Metered Parking Space that is within a mile of any concession metered parking space over the use of any concession metered parking space.”<sup>15</sup> In other words, the City may not use its power to establish metered parking fees to encourage the public to use reserve metered public spaces instead of concession metered parking spaces, for instance, by charging significantly lower fees for other or reserve metered parking spaces than for nearby concession metered parking spaces.

The Agreement further provides that if (1) the City revises the schedule of metered parking fees prior to December 31, 2013 without CPM’s written approval; and (2) that revision results in a reduction in the aggregate revenue value of the concession metered parking spaces, the City must restore CPM to the same economic position CPM would have been in absent the schedule revision.<sup>16</sup> After this initial period, as discussed in section II-E below, the City must increase the value of the metered parking system by the annual change in the Consumer Price Index (CPI) or compensate CPM.

The schedule of metered parking fees for the first five years of the Agreement is outlined in the following table:

**Table 1 – Parking Meter Fees by Location of Space**

Parking Space Location	Pre-concession fee per hour	2009 fee per hour	2010 fee per hour	2011 fee per hour	2012 fee per hour	2013 fee per hour
Zone 1 <sup>17</sup>	\$3.00	\$3.50	\$4.25	\$5.00	\$5.75	\$6.50
Zone 2 <sup>18</sup>	\$1.00 and \$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00
Zone 3 <sup>19</sup>	\$.25 thru \$.75	\$1.00	\$1.25	\$1.50	\$1.75	\$2.00
Sources: City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Exhibit A Metered Parking System Ordinance. City of Chicago and Chicago Park District, “Chicago Metered Parking System: Confidential Information Memorandum,” April 2008, 18.						

**C. Determination of Periods of Operation**

Under the Agreement, the City has the power to suspend metered parking systems operations for a concession metered parking space due to street closures (*e.g.* a weather related closure or a

<sup>15</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.1.

<sup>16</sup> The payment made to the City to restore CPM to its economic position absent the fee schedule revision is referred to in the agreement as “concession compensation”. For a more detailed description of how concession compensation is calculated, *see* Section 1.1’s definition of concession compensation.  
 City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.1 and 1.1.

<sup>17</sup> “[T]he area bounded by the south side of Congress Parkway on the south, Lake Michigan on the east, the north side of Wacker Drive on the north, and the west side of Wacker Drive on the west.”

City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Exhibit A Metered Parking System Ordinance.

<sup>18</sup> Excluding the spaces in Zone 1, “the area bounded by the south side of Roosevelt Road on the south, Lake Michigan on the east, the north side of North Avenue on the north, and the west side of Halsted Street on the west.”  
 City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Exhibit A Metered Parking System Ordinance.

<sup>19</sup> Excluding the spaces in Zones 1 and 2, all other spaces in the City.  
 City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Exhibit A Metered Parking System Ordinance.

street festival=).<sup>20</sup> More specifically, the Agreement provides for a required closure allowance for each concession metered parking space. For Central Business District spaces, the allowance is eight percent of the days in a given year that the space was operating as a concession space; for all other spaces, the allowance is four percent.<sup>21</sup> A parking space must be closed for “an aggregate duration of greater than six hours in any day” to constitute a “required closure.”<sup>22</sup> If the City exceeds the required closure allowance, it must make a required closure payment to CPM based on the excess days the City closed the concession metered parking space and the revenue value of that parking space.<sup>23</sup>

#### **D. Establishment of a Fine Schedule**

The City retains the right to set the parking fine schedule. However, if the fine to hourly fee ratio of a concession metered parking space falls below ten for any period of time, the revenue value of the parking space is automatically reduced by ten percent during that time period.<sup>24</sup> This is because higher fines are assumed to encourage drivers parking in metered parking spaces to pay metered parking fees. If the ratio falls below five, the revenue value is reduced by 25 percent and if the ratio falls below three, the revenue value is reduced by 80 percent.<sup>25</sup> These reductions in revenue value could potentially trigger a settlement payment from the City to CPM.<sup>26</sup>

#### **E. Quarterly Settlement Payments**

Each quarter the City calculates a quarterly settlement amount based upon the value of the metered parking system. The amount (and recipient) of the settlement depends on whether the City, through the exercise of its Reserved Powers, was able to increase the value of the metered parking system by an amount equal to the Annual Percentage Adjustment (APA). For the first five years of the agreement, the APA is pegged to the metered parking fee increases detailed in Table 1. After 2014 (at the start of the 6<sup>th</sup> year of the agreement), the APA will be equal to the

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<sup>20</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 1.1.

<sup>21</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 1.1.

The Central Business District encompasses all of the spaces in Zone 1 and most of the spaces in Zone 2. It is defined as “beginning at the eastern most point of Division Street extended to Lake Michigan; then west on Division Street to LaSalle Street; then south on LaSalle Street to Chicago Avenue; then west on Chicago Avenue to Halsted Street; then south on Halsted Street to Roosevelt Road; then east on Roosevelt Road to its easternmost point extended to Lake Michigan; including parking spaces on both sides of any of the above-mentioned streets.”

<sup>22</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.8(c); *see also id.* (stating that a required closure “of an aggregate duration of six hours or more that occurs within a period of three consecutive Days (with no single Day Required Closure of greater than six hours) shall be treated as a Required Closure for one Day”).

<sup>23</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.8(c), 7.4, 7.5(a) and 1.1.

<sup>24</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.8(e)

<sup>25</sup> City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 7.8(e)

<sup>26</sup> *See generally* City of Chicago and Chicago Parking Meters, LLC, “Chicago Metered Parking System Concession Agreement,” December 4, 2008, Section 1.1.

annual change in CPI.<sup>27</sup> Therefore, generally speaking, beginning in the 6<sup>th</sup> year of the agreement, if the City's actions increased the value of the system by less than the change in CPI for the relevant reporting year (or decreased the value of the system), the City will make a settlement payment to CPM.<sup>28</sup> Conversely, if the City's actions raised the value of the system by more than the change in CPI, the City is entitled to a credit that is to be applied toward future quarters in which the City owes a quarterly settlement amount to CPM.<sup>29</sup> Thus, annual increases in the value of the system equal to the annual change in CPI in the 6<sup>th</sup> year and each succeeding year of the agreement will neither require CPM to make a settlement payment to the City, nor the City to make a settlement payment to CPM.

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<sup>27</sup> City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 1.1.

<sup>28</sup> City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 7.5(a) and Schedule 6

<sup>29</sup> City of Chicago and Chicago Parking Meters, LLC, "Chicago Metered Parking System Concession Agreement," December 4, 2008, Section 7.5(b) and Schedule 6.